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CITY OF GONZALES, LOUISIANA

FINANCIAL REPORT

MAY 31, 2008

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Release Date 11/19/08

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mr. John A. Berthelot, Mayor
And the Members of the City Council
City of Gonzales, Louisiana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gonzales, Louisiana, as of and for the year then ended, May 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gonzales, Louisiana's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gonzales, Louisiana, as of May 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 3, 2008, on our consideration of the City of Gonzales, Louisiana's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison on pages 3 through 8 and 32 through 33, respectively, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gonzales's basic financial statements. The schedule of per diem presented on page 34 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of per diem has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Pastlthwait & Nettunell

October 3, 2008

CITY OF GONZALES

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 31, 2008

This section of City's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on May 31, 2008.

FINANCIAL HIGHLIGHTS

- The City's combined total net assets increased by \$5,315,456 or 7.5% over the course of this year's operations. Net assets of our governmental activities increased approximately \$3 million (or 6.3%) and approximately \$2.4 million or nearly 9.9% in the net assets of our business-type activities.
- During the year, the City's governmental activities expenses were \$2.9 million less than the \$16.8 million generated in charges for services, taxes, grants and contributions, and other revenue. The City's business-type activities revenues increased approximately \$1.6 million or 32.5% and expenses increased by \$147,628 or 3.7 percent.
- The general fund transferred \$4.5 million to the capital projects fund and \$300,000 to the internal service fund, and reported *net change* in fund balance of \$599,191.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial* statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are *fund financial* statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.
 - Proprietary fund statements offer *short* and *long-term* financial information about the activities the government operates *like businesses*, such as water and sewer system.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City's government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure of contents of each of the statements.

CITY OF GONZALES

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 31, 2008

**Figure A-1
Major Features of City's Government and Fund Financial Statements**

Fund Statements			
	Government-wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds)	The activities of the City that are not proprietary or fiduciary, such as police, fire, and parks	Activities the City operates similar to private businesses: the water and sewer system
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses, and changes in net assets • Statement of cash flows
Accounting basis and measurements focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payments are due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

CITY OF GONZALES

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 31, 2008

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's financial health, or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as changes in the City's property tax base and the condition of the City's roads.

The government-wide financial statements of the City are divided into two categories:

- Governmental activities—most of the City's basic services are included here, such as the police, fire, public works, parks department, and general administration. Property taxes, sales taxes and interest finance most of these activities.
- Business-type activities—The city charges fees to customers to help it cover the costs of certain services it provides. The city's water and sewer system are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.

The City has two kinds of funds:

- Governmental funds—Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- Proprietary funds—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
 - In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

CITY OF GONZALES

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 31, 2008

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. The City's combined net assets increased between fiscal years 2007 and 2008 from approximately \$70.5 million to approximately \$75.8 million. (See Table A-1.)

Table A-1
City's Net Assets

	Governmental Activities		Business-Type Activities	
	2008	2007	2008	2007
Current and other assets	\$ 26,589,195	\$ 25,816,190	\$ 4,844,028	\$ 5,108,446
Capital assets	23,798,076	21,478,063	25,498,760	23,194,129
Total assets	50,387,271	47,294,253	30,342,788	28,302,575
Current liabilities	631,911	426,569	764,023	705,978
Long term Liabilities	224,773	285,385	3,324,064	3,709,064
Total liabilities	856,684	711,954	4,088,087	4,415,042
Net assets				
Invested in capital assets,				
net of related debt	23,798,076	21,478,063	21,789,696	19,110,066
Unrestricted	25,732,511	25,104,236	4,465,005	4,777,467
Total net assets	\$ 49,530,587	\$ 46,582,299	\$26,254,701	\$23,887,533

Net assets of the City's governmental activities increased 6.3 percent to approximately \$49.5 million. Net assets of the City's business-type activities increased 10% to approximately \$26 million.

Changes in net assets. The City's total revenues increased by approximately \$3 million to \$23 million (See Table A-2.) Approximately 53 percent of the City's revenue comes from property and sales tax collection. Fees charged for services represent 23 percent, 5 percent represents licenses and permits, and 1 percent represent grants and contributions. Most of the rest is intergovernmental revenue.

The total cost of all programs and services increased approximately \$3 million or 19 percent. The City's expenses cover all services performed by its office.

Governmental Activities

Revenues and transfers for the City's governmental activities increased 8.3 percent, while total expenses increased 25 percent.

Business-type Activities

Revenues of the City's business-type activities increased approximately \$1.6 million or 32.5% and expenses increased by \$147,628 or 3.7 percent.

CITY OF GONZALES

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 31, 2008

Table A-2

Changes in City's Net Assets

	Governmental Activities		Business-Type Activities	
	2008	2007	2008	2007
Revenues				
Program revenues				
Charges for services	\$ 2,104,004	\$ 1,829,789	\$3,281,957	\$3,239,802
Grants & contributions	278,117	360,506	-	-
General revenues				
Taxes	12,343,821	10,783,801	-	500,012
Licenses and permits	1,132,153	1,433,985	-	-
Miscellaneous	228,637	248,738	133,552	127,296
Intergovernmental	-	-	3,019,269	815,656
Interest	1,036,168	973,998	49,535	207,738
Transfers	(300,000)	(100,000)	-	-
Total revenues and transfers	16,822,900	15,530,817	6,484,313	4,890,504
Expenses				
General government	1,358,707	1,190,785	-	-
Public safety	5,418,615	5,371,108	-	-
Streets and drainage	4,648,538	2,326,778	-	-
Sanitation	660,891	640,713	-	-
Recreation	1,376,804	1,180,817	-	-
Civic Center	62,321	58,379	-	-
Code enforcement	348,736	325,641	-	-
Utility	-	-	4,117,145	3,969,517
Total expenses	13,874,612	11,094,221	4,117,145	3,969,517
Change in net assets	\$ 2,948,288	\$ 4,436,596	\$ 2,367,168	\$ 920,987

- The change in net assets for all governmental activities this year decreased by approximately 1.5 million to \$2.9 million. The change in net assets for business activities this year increased by approximately \$1.4 million to \$2.4 million.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$26.2 million, an increase of 3 percent from last year.

General Fund Budgetary Highlights

- Over the course of the year, there were no amendments made to the general fund and proprietary fund budgets.

CITY OF GONZALES

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 31, 2008

CAPITAL ASSETS

At the end of 2008, the City had invested approximately \$49.3 million in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, vehicles, and water and sewer lines. (See Table A-3) This amount represents a net increase (including additions and deductions) of approximately \$4.6 million, or 10 percent, over last year.

Table A-3
City's Capital Assets
(net of depreciation)

	Governmental Activities		Business Activities	
	2008	2007	2008	2007
Land	\$ 724,138	\$ 709,138	\$ 118,828	\$ 118,828
Buildings	4,945,540	4,759,821	-	-
Other Improvements	14,836,516	12,732,798	-	-
Lines, meters, & Plants	-	-	25,199,709	22,848,006
Equipment	1,902,054	1,806,725	141,986	170,636
Vehicles	1,389,828	1,469,581	38,237	56,659
Total	\$ 23,798,076	\$ 21,478,063	\$ 25,498,760	\$ 23,194,129

This year's major capital asset additions included:

- Improvements to the water system and sewer systems in the amounts of \$3,019,269.
- Street overlay project in the amount of \$2,288,901.
- Building improvements in the amount of \$364,347.
- Improvements to parks and fields in amounts totaling \$540,283.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City is dependent on tax collections for 53 percent of its revenues, and charges for services for 23 percent. The City does not anticipate growth because of the decline in the economy. Therefore, the City's future revenues are expected to be the same as in current years. The budgeted expenditures in the general fund reflect a 6% increase in general insurance premiums and a 6.3% raise for all employees. The capital outlay budget projects to spend \$25.5 million for street overlays, street widening, additional turn lanes, sewer rehabilitation, drainage, recreation, sidewalk construction, a new water tower, utility services, office administration, and property acquisition. The Utility fund budget is in accordance with city ordinance and the cost of operation of the Gas Department is set at \$4.07 per MCF.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Clay Stafford, 120 South Irma Boulevard, Gonzales, LA 70737.

CITY OF GONZALES
STATEMENT OF NET ASSETS
MAY 31, 2008

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ 1,023,933	\$ 1,581,206	\$ 2,605,139
Investments	23,375,423	2,829,370	26,204,793
Receivables	2,189,839	433,452	2,623,291
Capital assets, net of accumulated depreciation	23,798,076	25,498,760	49,296,836
TOTAL ASSETS	50,387,271	30,342,788	80,730,059
 <u>LIABILITIES</u>			
Accounts payable	\$ 263,037	\$ 73,713	\$ 336,750
Accrued expenses	85,920	63,877	149,797
Cash overdraft	145,995	-	145,995
Claims payable	136,959	-	136,959
Payable from restricted assets:			
Customer deposits	-	241,433	241,433
Current portion of Long term debt	-	385,000	385,000
Long-term liabilities:			
Compensated absences	224,773	-	224,773
Bonds payable	-	3,324,064	3,324,064
TOTAL LIABILITIES	856,684	4,088,087	4,944,771
 <u>NET ASSETS</u>			
Invested in capital assets, net of related debt	23,798,076	21,789,696	45,587,772
Unrestricted	25,732,511	4,465,005	30,197,516
TOTAL NET ASSETS	\$ 49,530,587	\$ 26,254,701	\$ 75,785,288

The accompanying notes are an integral part of this financial statement.

CITY OF GONZALES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2008

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
ACTIVITIES							
Governmental:							
General government	1,358,707	\$ 1,510,791	\$ 170,363	\$ -	\$ 322,447	\$ -	\$ 322,447
Public safety:							
Police	3,325,868	339,347	7,349	20,258	(2,958,914)	-	(2,958,914)
Fire	2,092,747	253,866	7,534	72,613	(1,758,734)	-	(1,758,734)
Streets and drainage	4,648,538	-	-	-	(4,648,538)	-	(4,648,538)
Sanitation	660,891	-	-	-	(660,891)	-	(660,891)
Recreation	1,376,804	-	-	-	(1,376,804)	-	(1,376,804)
Civic Center	62,321	-	-	-	(62,321)	-	(62,321)
Code enforcement	348,736	-	-	-	(348,736)	-	(348,736)
Total governmental activities	13,874,612	2,104,004	185,246	92,871	(11,492,491)	-	(11,492,491)
Business-type:							
Utility	4,117,145	3,281,957	-	-	-	(835,188)	(835,188)
Total business-type activities	4,117,145	3,281,957	-	-	-	(835,188)	(835,188)
Total City of Gonzales	\$ 17,991,757	\$ 5,385,961	\$ 185,246	\$ 92,871	(11,492,491)	(835,188)	(12,327,679)
General Revenues:							
Taxes					12,343,821	-	12,343,821
Licenses and permits					1,132,153	-	1,132,153
Miscellaneous					228,637	133,552	362,189
Intergovernmental					-	3,019,269	3,019,269
Interest					1,036,168	49,535	1,085,703
Transfers In (Out)					(300,000)	-	(300,000)
Total general revenues and transfers					14,440,779	3,202,356	17,643,135
Change in net assets					2,948,288	2,367,168	5,315,456
Net assets - June 1, 2007					46,582,299	23,887,533	70,469,832
Net assets - May 31, 2008					\$ 49,530,587	\$ 26,254,701	\$ 75,785,288

The accompanying notes are an integral part of this financial statement.

CITY OF GONZALES
BALANCE SHEET
GOVERNMENTAL FUNDS
MAY 31, 2008

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash	\$ 919,940	\$ 103,993	\$ 1,023,933
Investments	18,308,190	5,067,233	23,375,423
Receivables	1,698,740	491,099	2,189,839
Total assets	<u><u>\$ 20,926,870</u></u>	<u><u>\$ 5,662,325</u></u>	<u><u>\$ 26,589,195</u></u>
LIABILITIES			
Accounts payable	\$ 96,669	\$ 166,368	\$ 263,037
Accrued expenses	85,920	-	85,920
Total liabilities	<u><u>182,589</u></u>	<u><u>166,368</u></u>	<u><u>348,957</u></u>
FUND BALANCES			
Unreserved	<u>20,744,281</u>	<u>5,495,957</u>	<u>26,240,238</u>
Total fund balances	<u><u>20,744,281</u></u>	<u><u>5,495,957</u></u>	<u><u>26,240,238</u></u>
Total liabilities and fund balances	<u><u>\$ 20,926,870</u></u>	<u><u>\$ 5,662,325</u></u>	<u><u>\$ 26,589,195</u></u>

The accompanying notes are an integral part of this financial statement.

CITY OF GONZALES
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
MAY 31, 2008

Total fund balances - Governmental Funds		\$ 26,240,238
Cost of capital assets at May 31, 2008	\$ 46,564,415	
Less: accumulated depreciation as of May 31, 2008	<u>(22,766,339)</u>	23,798,076
Internal Service Funds		(282,954)
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.		
Compensated Absences		<u>(224,773)</u>
Total net assets at May 31, 2008 - Governmental Activities		<u>\$ 49,530,587</u>

The accompanying notes are an integral part of this financial statement.

CITY OF GONZALES
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUND TYPES
YEAR ENDED MAY 31, 2008

	General	Capital Projects	Total Governmental Funds
REVENUE			
Taxes	\$ 10,122,991	\$ 2,220,830	\$ 12,343,821
Franchise fees	1,203,626	-	1,203,626
Licenses and permits	1,132,153	-	1,132,153
Fines and forfeitures	339,347	-	339,347
Miscellaneous	228,637	-	228,637
Charges for services	307,165	-	307,165
Fire department revenue	253,866	-	253,866
Intergovernmental revenues:			
Federal and state grants	92,871	-	92,871
Other grants	185,246	-	185,246
Interest	762,214	273,954	1,036,168
Total revenues	<u>14,628,116</u>	<u>2,494,784</u>	<u>17,122,900</u>
EXPENDITURES			
Current:			
General government	1,147,414	99,189	1,246,603
Public safety:			
Police	3,485,716	-	3,485,716
Fire	1,866,514	-	1,866,514
Streets and drainage	946,622	6,157,421	7,104,043
Sanitation	643,150	-	643,150
Recreation	787,339	594,603	1,381,942
Civic Center	61,070	-	61,070
Code enforcement	341,100	-	341,100
Total expenditures	<u>9,278,925</u>	<u>6,851,213</u>	<u>16,130,138</u>
Excess of Revenues over (under) expenditures	5,349,191	(4,356,429)	992,762
OTHER FINANCING SOURCES (USES)			
Transfers in	50,000	4,500,000	4,550,000
Transfers out	<u>(4,800,000)</u>	<u>(50,000)</u>	<u>(4,850,000)</u>
	<u>(4,750,000)</u>	<u>4,450,000</u>	<u>(300,000)</u>
Net change in fund balances	599,191	93,571	692,762
Fund Balance, Beginning of Year	<u>20,145,090</u>	<u>5,402,386</u>	<u>25,547,476</u>
Fund Balance, End of Year	<u>\$ 20,744,281</u>	<u>\$ 5,495,957</u>	<u>\$ 26,240,238</u>

The accompanying notes are an integral part of this financial statement.

CITY OF GONZALES
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
MAY 31, 2008

Net change in fund balances - Governmental funds \$ 692,762

The change in net assets reported for governmental activities in the statement of activities is different because:

Capital assets:

Capital outlay capitalized	3,978,221	
Depreciation expense for the year ended May 31, 2008	(1,652,755)	
Loss on sale of fixed assets	<u>(5,453)</u>	2,320,013

Change in net assets of internal service funds (125,099)

Less: Excess of compensated absences used over compensated absences earned 60,612

Change in net assets of governmental activities \$ 2,948,288

The accompanying notes are an integral part of this financial statement.

CITY OF GONZALES
STATEMENTS OF NET ASSETS (DEFICIT)
PROPRIETARY FUNDS
MAY 31, 2008

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
	<u>Utility</u>	<u>Health Insurance</u>
<u>ASSETS</u>		
Cash	\$ 1,581,206	\$ -
Investments	2,829,370	-
Receivables (net of allowance)	433,452	-
Capital assets, net of accumulated depreciation	25,498,760	-
TOTAL ASSETS	30,342,788	-
<u>LIABILITIES</u>		
Cash overdraft	\$ -	\$ 145,995
Claims payable	-	136,959
Accounts payable	73,713	-
Accrued expenses	63,877	-
Current portion of Long term debt	385,000	-
Customer deposits	241,433	-
Long-term liabilities:		
Series 1996 Bonds payable	3,324,064	-
TOTAL LIABILITIES	4,088,087	282,954
<u>NET ASSETS (DEFICIT)</u>		
Invested in capital assets, net of related debt	21,789,696	-
Unrestricted	4,465,005	-
TOTAL NET ASSETS (DEFICIT)	\$ 26,254,701	\$ (282,954)

The accompanying notes are an integral part of this financial statement.

CITY OF GONZALES
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS (DEFICIT)
PROPRIETARY FUNDS
YEAR ENDED MAY 31, 2008

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
	<u>Utility</u>	<u>Health Insurance</u>
OPERATING REVENUES		
Charges for service:		
Gas sales	\$ 1,708,548	\$ -
Sewer service charges	836,368	-
Water sales	737,041	-
Premiums received	-	1,242,450
Miscellaneous	133,552	-
Total operating revenues	<u>3,415,509</u>	<u>1,242,450</u>
OPERATING EXPENSES		
Claims expense	-	1,667,549
Gas department	1,586,118	-
General and administrative	574,208	-
Depreciation and amortization	714,638	-
Water department	593,975	-
Sewer department	648,206	-
Total operating expenses	<u>4,117,145</u>	<u>1,667,549</u>
OPERATING LOSS	<u>(701,636)</u>	<u>(425,099)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	171,015	-
Sales Taxes	-	-
Intergovernmental	3,019,269	-
Interest on bonds payable	(121,480)	-
Transfer in	-	300,000
Net non-operating revenues	<u>3,068,804</u>	<u>300,000</u>
Change in net assets	2,367,168	(125,099)
Total net assets - beginning	<u>23,887,533</u>	<u>(157,855)</u>
Total net assets (deficit) - ending	<u>\$ 26,254,701</u>	<u>\$ (282,954)</u>

The accompanying notes are an integral part of this financial statement.

CITY OF GONZALES
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED MAY 31, 2008

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
	<u>Utility</u>	<u>Health Insurance</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 3,370,200	\$ 1,242,450
Payments to suppliers	(3,354,463)	-
Claims paid	-	(1,542,450)
Net cash provided (used) by operating activities	<u>15,737</u>	<u>(300,000)</u>
CASH FLOWS FROM NONCAPITAL FINANCING		
Transfers from other funds	-	300,000
Change in overdraft	-	(113,116)
Net cash provided by noncapital financing	<u>-</u>	<u>186,884</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments on long term debt	(375,000)	-
Interest paid	(121,480)	-
Net cash used by capital and related financing activities	<u>(496,480)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of capital assets	(3,019,269)	-
Intergovernmental revenue	3,019,269	-
Sales of investments	932,391	-
Interest received	171,015	-
Net cash provided by investing activities	<u>1,103,406</u>	<u>-</u>
Net increase in cash and cash equivalents	622,663	(113,116)
Cash and cash equivalents - June 1, 2007	958,543	(32,879)
Cash and cash equivalents - May 31, 2008	<u>\$ 1,581,206</u>	<u>\$ (145,995)</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (701,636)	\$ (425,099)
Adjustments to reconcile operating income to net cash provided (used) by operating activities -		
Depreciation and amortization	714,638	-
Bad debt provision	19,037	-
Increase in accounts receivable	(69,539)	-
Increase in accrued interest	5,193	-
Increase in accounts payable	29,002	-
Increase in cash overdraft	-	113,116
Increase in claims payable	-	11,983
Decrease in accrued liabilities	19,042	-
Net cash provided (used) by operating activities	<u>\$ 15,737</u>	<u>\$ (300,000)</u>

The accompanying notes are an integral part of this financial statement.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The City of Gonzales, Louisiana, was incorporated April 15, 1922, under the provision of the Lawrason Act. The City operates under a Mayor-City Council form of government.

The accounting and reporting practices of the City of Gonzales, Louisiana, conform to accounting principles generally accepted in the United States of America as applicable to governmental units on a consistent basis between periods.

Financial Reporting Entity – This report includes all funds and account groups, which are controlled by, or dependent on the City's executive and legislative branches (the Mayor and the City Council). Control by or dependence on the City was determined on the basis of budget adoption, taxing authority, authority to issue debt, election or appointment of governing body, and other general oversight responsibility.

Based on the foregoing criteria, certain organizations are not part of the City and are thus excluded from the accompanying financial statements. These are the Friends of the Museum, Beautification Board, and Committee on Cultural Affairs. The City exercises no control over their operations.

The following is a summary of certain significant accounting policies:

Basis of Presentation, Basis of Accounting

Government-wide Statements: The statement of net assets and the statement of activities display information about the City of Gonzales. These statements include the financial activities of the overall government, except for fiduciary activities. These statements distinguish between the *governmental and business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Fund Financial Statements: The fund financial statements provide information about the City's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

- a. General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. Capital Projects Funds – Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and agency funds).

The City reports the following proprietary funds:

- a. Utility Fund – This fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.
- b. Internal Service Fund – This fund is used to account for the financing of goods or services provided by an activity to other departments, funds or component units of the City on a cost-reimbursement basis. Because the principal users of the internal services are the City's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the government-wide financial statements.

Measurement Focus, Basis of Accounting -

Government-wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources and uses.

All governmental and business-type activities and enterprise funds of the City follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinion, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Transfers between funds are not expected to be repaid and are accounted for as other financing sources (uses). These other financing sources (uses) are recognized at the time the underlying events occur.

Budgets and Budgetary Accounting – The City follows these procedures in establishing the budgetary data reflected in these financial statements:

- 1) The City's Mayor and Clerk prepare a proposed budget message and budget and submit it to the City Council prior to the beginning of each fiscal year.
- 2) A summary of the proposed budget is published and the public notified that the proposed budget is available for public inspection. At the same time, a public hearing is called.
- 3) A public hearing is held on the proposed budget at least two weeks after publication of the call for the hearing.
- 4) After the holding of the public hearing and completion of all action necessary to finalize and implement the budget, the budget is adopted through passage of an ordinance prior to the commencement of the fiscal year for which the budget is being adopted.
- 5) Budgetary amendments involving the transfer of funds from one department, program, or function to another, or involving increases in expenditures resulting from revenues exceeding amounts estimated require the approval of the City Council.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

6) All budgetary appropriations lapse at the end of each fiscal year.

7) The budget for the General Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). The budget for the Enterprise Fund is adopted under a basis consistent with GAAP, except for depreciation, amortization, and bad debt expense, which are not considered. The budget for the Capital Projects Fund is adopted on a project by project basis. Budgeted amounts are as originally adopted, or as amended from time to time by the City council. Such amendments were not material in relation to the original appropriations.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, excluding amounts whose use is limited by board designation or those amounts with third-party payors.

Investments – Investments are stated at market value.

Inventories – Inventory of supplies is immaterial in the dollar amount and all supplies are expensed when purchased.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2001, consist of the road network assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	20-30
Buildings	40
Building Improvements	20
Other Improvements	20-40
Vehicles	5-15
Equipment	3-15

The proprietary fund is accounted for on a cost of service or "capital maintenance" measurement focus, and all assets and all liabilities (whether current or non current) associated with its activity are included on its balance sheet.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

	<u>Years</u>
Lines, meters, & sewer system	40-50
Equipment	4-10
Vehicles	4

All fixed assets are stated at historical cost or estimated historical cost, if actual historical cost is not available. Donated fixed assets are stated at their estimated fair value on the date received.

Compensated Absences – The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Bad Debts – Uncollectible amounts due for ad valorem taxes and customers' utility receivables are expenses when the debt becomes uncollectible, which is not materially different from accounting principles generally accepted in the United States of America. The City considers any utility receivable where service has been disconnected to be uncollectible. All utility receivables with service are considered collectible.

Statement of Cash Flows – For purposes of the statement of cash flows, the Utility Enterprise Fund considers all highly liquid investments (including restricted assets), with a maturity of three months or less when purchased to be cash equivalents.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS

2. Capital Assets

Capital assets and depreciation activity as of and for the year ended May 31, 2008, are as follows:

Governmental activities:

	Land	Building	Other Improvements	Equipment	Vehicles	Total
Cost of Capital Assets						
May 31, 2007	\$709,138	\$6,390,453	\$ 28,786,197	\$3,743,324	\$3,269,874	\$42,898,986
Additions	15,000	364,347	2,829,184	458,138	311,552	3,978,221
Deletions	-	-	-	(6,084)	(306,708)	(312,792)
Costs of Capital Assets						
May 31, 2008	724,138	6,754,800	31,615,381	4,195,378	3,274,718	46,564,415
Accumulated depreciation						
May 31, 2007	-	1,630,632	16,053,399	1,936,599	1,800,293	21,420,923
Additions	-	178,628	725,466	361,809	386,852	1,652,755
Deletions	-	-	-	(6,084)	(301,255)	(307,339)
Accumulated depreciation, May 31, 2008	-	1,809,260	16,778,865	2,292,324	1,885,890	22,766,339
Capital assets, net of accumulated depreciation at May 31, 2008	\$724,138	\$4,945,540	\$ 14,836,516	\$1,903,054	\$1,388,828	\$23,798,076

For the year ended May 31, 2008, depreciation expense was \$1,652,755. Total depreciation expense is allocated as follows:

Code Enforcement	\$ 3,884
Streets & Drainage	479,312
Fire	377,200
Police	181,113
Recreation	352,073
Sanitation	8,984
General	250,189
Total depreciation expense	<u>\$ 1,652,755</u>

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS

2. Capital Assets (continued)

Business-Type Activities:

	<u>Land</u>	<u>Building</u>	<u>Lines, Meters, and plants</u>	<u>Equipment</u>	<u>Vehicles</u>	<u>Total</u>
Cost of Capital Assets						
May 31, 2007	\$118,828	\$22,474	\$33,753,349	\$455,866	\$498,798	\$34,849,315
Additions	-	-	3,019,269	-	-	3,019,269
Deletions	-	-	-	-	(31,797)	(31,797)
Costs of Capital Assets,						
May 31, 2008	118,828	22,474	36,772,618	455,866	467,001	37,836,787
Accumulated depreciation						
May 31, 2007	-	22,474	10,905,343	285,230	442,139	11,655,186
Additions	-	-	667,566	28,650	18,422	714,638
Deletions	-	-	-	-	(31,797)	(31,797)
Accumulated depreciation,						
May 31, 2008	-	22,474	11,572,909	313,880	428,764	12,338,027
Capital assets, net of accumulated depreciation at						
May 31, 2008	\$118,828	\$ -	\$25,199,709	\$141,986	\$38,237	\$25,498,760

For the year ended May 31, 2008, depreciation expense was \$714,638.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS

3. Custodial Credit Risk- Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. The bank balance was not exposed to custodial credit risk at May 31, 2008.

4. Investments

Statutes authorize the City to invest in United States bonds, treasury notes or certificates, time certificates of deposit of Louisiana state banks and national banks having the principal office in the State of Louisiana, or any other federally insured investments.

As of May 31, 2008, the city had the following investments and maturities.

INVESTMENT MATURITIES (IN YEARS)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>
U.S. Agencies	\$ 10,391,147	\$ 2,762,874	\$ 7,628,273
LAMP Funds	13,615,738	13,615,738	-
Certificates of Deposit	<u>2,197,908</u>	<u>2,197,908</u>	<u>-</u>
Total Investments	<u>\$26,204,793</u>	<u>\$18,576,520</u>	<u>\$ 7,628,273</u>

The investment in LAMP funds had a weighted average maturity of 3.5 months as of May 31, 2008; therefore, it was presented as an investment with maturity of less than one year.

Interest Rate Risk

The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State law limits investments in securities issued, or backed by the United States Treasury obligations, and U.S. Government instrumentalities, which are federally sponsored. The City's investment policy does not further limit its investment choices. As of May 31, 2008, the city's investment in LAMP was rated AAA by Standard & Poor's. The city's investments in U.S. Agencies and U.S. Government Securities were rated AAA by Moody's Investors Service.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS

4. Investments (continued)

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. More than 5 percent of the City's investments are in Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Federal Farm Credit Bank. These investments are 27%, 34%, 26%, and 11% respectively at May 31, 2008.

5. Ad Valorem Taxes

Ad valorem taxes attach an enforceable lien on property as of January 1 of each year. Taxes are levied by the City in September or October, and are actually billed to the taxpayers in November. Billed taxes become delinquent on January 1 of the following year. Revenues from ad valorem taxes are budgeted in the year billed.

The City bills and collects its own property taxes using the assessed values determined by the tax assessor of Ascension Parish.

For the year ended May 31, 2008 taxes of 8.55 mills were levied on property with assessed valuations totaling \$87,904,040 and were dedicated as follows:

General corporate purposes	5.28 mills
Fire department	3.27 mills

Total taxes levied were \$751,580. At May 31, 2008, only a minor amount of taxes were uncollected and adjudicated to the City.

6. Transfers to/from Other Funds

Transfers to/from Other Funds at May 31, 2008 consist of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 4,800,000
Capital Projects Fund	4,550,000	50,000
Internal Service Fund	300,000	-
	<u>\$ 4,850,000</u>	<u>\$ 4,850,000</u>

Transfers from general fund to other funds are to provide supplemental funds for fund operations.

CITY OF GONZALES
NOTES TO FINANCIAL STATEMENTS

7. Restricted Assets

Restricted assets at May 31, 2008 were applicable to the following:

	<u>Utility Fund</u>
Customer Deposits	\$ 241,433
Debt Service	570,195
Total restricted net assets	<u>\$ 811,628</u>

8. Concentration of Credit Risk-Proprietary Fund

Accounts receivable from utility customers were comprised of the following sources: residential – 50%, commercial – 44%; other governmental agencies – 6%. Outstanding balances are partially secured by deposits made when service is requested.

9. Changes in Long-Term Debt

The following is a summary of long term debt transactions of the City of Gonzales for the year ended May 31, 2008:

Governmental Activities:

Compensated Absences

Balance at June 1, 2007	\$ 285,385
Increases	13,420
Decreases	<u>(74,032)</u>
Balance at May 31, 2008	<u>\$ 224,773</u>

Business Type Activities:

Bonds Payable

Bonds payable June 1, 2007	\$ 4,084,064
Debt Matured	<u>(375,000)</u>
Bonds payable May 31, 2008	<u>\$ 3,709,064</u>

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS

9. Changes in Long-Term Debt (continued)

Debts payable at May 31, 2008, are comprised of the following individual issues:

Utility obligation bonds:

\$7,500,000 Sewer improvement bonds dated May 28, 1997, due in annual installments of \$280,000 to \$485,000 through March 1, 2017; interest at 2.95%, secured by collection of sales tax. \$ 3,709,064

The annual requirements to amortize all debts outstanding as of May 31, 2008, including interest payments of \$544,911 are as follows:

<u>Years ending</u> <u>May 31</u>	<u>Principal</u>	<u>Interest</u>
2009	385,000	109,417
2010	400,000	98,060
2011	410,000	86,260
2012	420,000	74,165
2013	435,000	61,775
2014-2017	<u>1,659,064</u>	<u>115,234</u>
	<u>\$3,709,064</u>	<u>\$544,911</u>

10. Sales and Use Tax

The City has the following sales and use taxes in existence as of May 31, 2008:

On September 10, 1966, a 1% sales tax was passed to be used for streets, sidewalks, drainage, garbage, utilities, parks & recreation, fire department, and acquisition and maintenance of public buildings including City Hall and Civic Center.

On April 1, 1989, a ½% sales tax was passed to be used for sewer, water, drainage, streets, and gas. The ordinance is set to expire on April 1, 2010.

On July 1, 2001, an additional ½% sales tax was passed to be used for fire, police, and sanitation.

On May 16, 2005, proceeds from the 1% sales and use tax authorized on September 10, 1966 and the ½% sales and use tax authorized on April 1, 1989 collected within the Gonzales Economic Development District No. 1 were dedicated to the Industrial Development Board of the City of Gonzales, Louisiana, Inc. to promote economic development.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS

11. Pension Plan

Substantially all employees of the City of Gonzales are members of the following statewide retirement systems: Municipal Employees Retirement System of Louisiana or Municipal Police Employees Retirement System of Louisiana. These systems are cost sharing, multiple-employer defined benefit pension plans administered by separate bonds of trustees. Pertinent information relative to each plan follows:

A. Municipal Employees Retirement System of Louisiana (System)

Plan Description. The system is composed of two distinct plans, Plan A and Plan B, with separate assets and benefit provisions. All employees of the City in this System are members of Plan A.

All permanent employees working at least 35 hours per week who are not covered by another pension plan and are paid wholly or in part from municipal funds and all elected municipal officials are eligible to participate in the System. Under Plan A, employees who retire at or after age 60 with at least 10 years of creditable service, at any age with at least 25 years of creditable service, are entitled to a retirement benefit, payable monthly for life, equal to 3 percent of their final-average salary for each year of creditable service.

Final-average salary is the employee's average salary over the 36 consecutive or joined months that produce the highest average. Employees who terminate with at least the amount of creditable service stated above, and do not withdraw their employee contributions, may retire at the ages specified above and receive the benefit accrued to their date of termination. The System also provides death and disability benefits. Benefits are established or amended by state statute.

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Municipal Employees Retirement System of Louisiana, 7937 Office Park Boulevard, Baton Rouge, Louisiana 70809, or by calling (225) 925-4810.

Funding Policy. Under Plan A, members are required by state statute to contribute 9.25 percent of their annual covered salary and the City of Gonzales is required to contribute at an actuarially determined rate. The current rate is 13.5 percent of annual covered payroll. Contributions to the System also include one-fourth of one percent (except Orleans and East Baton Rouge Parishes) of the taxes shown to be collectible by the tax rolls of each parish. These tax dollars are divided between Plan A and Plan B based proportionately on the salaries of the active members of each plan. The contribution requirements of plan members and City of Gonzales are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The contributions of the City of Gonzales to the System under Plan A for the year ending May 31, 2008, 2007, and 2006 were \$413,280, \$484,434, and \$408,293 respectively.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS

11. Pension Plan (continued)

B. Municipal Police Employees Retirement System of Louisiana (System)

Plan Description. All full-time police department employees engaged in law enforcement are required to participate in the System. Employees who retire at or after age 50 with at least 20 years of creditable service or at or after age 55 with at least 12 years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to 3 1/3 percent of their final-average salary of each year of creditable service. Final-average salary is the employee's average salary over the 36 consecutive or joined months that produce the highest average. Employees who terminate with at least the amount of creditable service stated above, and do not withdraw their employee contributions, may retire at the ages specified previously and receive the benefit accrued to their date of termination. The System also provides death and disability benefits. Benefits are established or amended by state statute.

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Municipal Police Employees Retirement System of Louisiana, 8401 United Plaza Boulevard, Baton Rouge, Louisiana 70809-2250, or by calling (225 929-7411).

Funding Policy. Plan members are required by state statute to contribute 7.5 percent of their annual covered salary and the City of Gonzales is required to contribute at an actuarially determined rate. The current rate is 13.75 percent of annual covered payroll. The contribution requirements of plan members and the City of Gonzales are established and may be amended by state statute. As provided by Louisiana Revised Statute 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year.

The contributions of the City of Gonzales for the year ending May 31, 2008, 2007, and 2006 were \$243,931, \$249,633, and \$217,820 respectively.

12. Postemployment Benefits

The City in accordance with State statutes, provides certain postemployment health care benefits to its former employees. Substantially all of the City's employees may become eligible for such benefits upon reaching retirement age. The health insurance premiums are paid jointly by the City and the retiree. For the year ended May 31, 2008, the City paid between 30% to 50% of the health insurance premiums for retired employees. The cost of retirement health care is recognized as an expenditure/expense as premiums are paid. For fiscal year 2008, the City's cost for providing all health care and life insurance benefits to the 25 retired employees and their dependents amounted to \$169,320.

CITY OF GONZALES

NOTES TO FINANCIAL STATEMENTS

12. Postemployment Benefits (continued)

The City has a continuing future obligation for health care benefits for retired employees and their dependents. This future liability is not funded but will be payable by the General Fund out of future years' operations. Although actuarial consultants estimated that this future liability is significant, current generally accepted accounting principles do not require the City to reflect this liability in the basic financial statements. However, the City will have to adopt GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 will require the City to recognize a liability for its postemployment benefits during the fiscal year ended May 31, 2009. Except for the fifty to seventy percent of the dependent coverage, no other contributions are required by the retirees to help finance these future benefits.

13. Deficit Fund Balance

A net deficit of \$282,954 exists in the internal service fund resulting from an excess of claims expenses over premiums received. Subsequent to year end, the City will no longer be self insured.

14. Contingencies

Litigation – Various lawsuits are pending against the City. In the opinion of City management, the potential loss on lawsuits will not be material to the City's basic financial statements.

15. Risk Management

The City provides health coverage for its employees. The Health Fund accounts for the City's group health insurance program for its active and retired employees. The City retains risk up to \$55,000 per covered person per policy period. The insurance policy covers greater amount than \$55,000 per covered person per policy period. A maximum lifetime benefit of \$1,000,000 per employee is allowed.

A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable.

A reconciliation of the unpaid claims liability as of June 30 follows:

Unpaid Claims as of June 1, 2007	\$ 124,976
Current year claims incurred and changes in estimates	1,767,549
Claims paid	<u>(1,755,566)</u>
Unpaid claims as of May 31, 2008	<u>\$ 136,959</u>

CITY OF GONZALES
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED MAY 31, 2008

	Original Budget	Final Budget	Actual
REVENUES			
Taxes	\$ 7,395,000	\$ 7,395,000	10,122,991
Franchise fees	929,500	929,500	1,203,626
Licenses and permits	699,350	699,350	1,132,153
Fines and forfeits	210,000	210,000	339,347
Miscellaneous	55,600	55,600	228,637
Charges for services	68,000	68,000	307,165
Intergovernmental	13,700	13,700	278,117
Fire department revenue	375,000	375,000	253,866
Interest	155,000	155,000	762,214
Total revenues	<u>9,901,150</u>	<u>9,901,150</u>	<u>14,628,116</u>
EXPENDITURES			
Current:			
General government	1,270,450	1,270,450	1,147,414
Public safety			
Police	3,187,600	3,187,600	3,485,716
Fire	2,039,500	2,039,500	1,866,514
Streets and drainage	1,034,200	1,034,200	946,622
Sanitation	709,900	709,900	643,150
Recreation	871,000	871,000	787,339
Civic center	65,000	65,000	61,070
Code enforcement	364,500	364,500	341,100
Miscellaneous	85,500	85,500	-
Total expenditures	<u>9,627,650</u>	<u>9,627,650</u>	<u>9,278,925</u>
Excess of revenues over expenditures	273,500	273,500	5,349,191
OTHER FINANCING USES			
Transfers in	-	-	50,000
Transfers out	(16,283,500)	(16,283,500)	(4,800,000)
Net change in fund balance	<u>(16,010,000)</u>	<u>(16,010,000)</u>	<u>599,191</u>
Fund Balance, Beginning of year	<u>20,145,090</u>	<u>20,145,090</u>	<u>20,145,090</u>
Fund Balance, End of year	<u>\$ 4,135,090</u>	<u>\$ 4,135,090</u>	<u>\$ 20,744,281</u>

CITY OF GONZALES
BUDGETARY COMPARISON SCHEDULE
CAPITAL PROJECTS
YEAR ENDED MAY 31, 2008

	<u>Original Budget</u>	<u>Budget</u>	<u>Actual</u>
REVENUES			
Sales tax	\$ 1,500,000	\$ 1,500,000	\$ 2,220,830
Interest	70,000	70,000	273,954
Total revenues	<u>1,570,000</u>	<u>1,570,000</u>	<u>2,494,784</u>
EXPENDITURES			
Capital Outlays:			
Street overlay project	3,675,000	3,675,000	479,717
Street department acquisitions	400,000	400,000	322,523
Worthy Road project	6,300,000	6,300,000	1,851,801
Erosion prevention project	350,000	350,000	338,767
Sidewalk construction	65,000	65,000	11,656
Carver park parking	150,000	150,000	5,000
Recreation Capital	150,000	150,000	155,360
City Room	55,000	55,000	56,779
Jambalaya park	310,000	310,000	98,668
Property acquisition	100,000	100,000	130,327
Civic Center	36,000	36,000	6,636
Code enforcement capital	110,000	110,000	214,833
Water tower and transmission lines	4,800,000	4,800,000	252,579
Pump station 40 relocation/ext	3,600,000	3,600,000	85,742
Wastewater improvements	1,900,000	1,900,000	1,377,085
Water improvements	1,100,000	1,100,000	1,154,428
Utility department capital	280,000	280,000	278,123
General administration	35,000	35,000	31,189
Total expenditures	<u>23,416,000</u>	<u>23,416,000</u>	<u>6,851,213</u>
Excess of expenditures over revenues	(21,846,000)	(21,846,000)	(4,356,429)
OTHER FINANCING SOURCES			
Transfers in	16,000,000	16,000,000	4,500,000
Transfers out	-	-	(50,000)
Net change in fund balance	<u>(5,846,000)</u>	<u>(5,846,000)</u>	<u>93,571</u>
Fund Balance, Beginning of year	<u>5,402,386</u>	<u>5,402,386</u>	<u>5,402,386</u>
Fund Balance, End of year	<u><u>\$ (443,614)</u></u>	<u><u>\$ (443,614)</u></u>	<u><u>\$ 5,495,957</u></u>

CITY OF GONZALES
SCHEDULE OF PER DIEM PAID
YEAR ENDED MAY 31, 2008

	<u>MONTHLY</u>	<u>ANNUAL</u>
Alvin "Bully" Dragg	\$ 800	\$ 9,600
Terance Irvin	800	9,600
Kenneth Matassa	800	9,600
Larry Savell	800	9,600
Ronald Waguespack	800	9,600
		<u>\$ 48,000</u>

CITY OF GONZALES, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MAY 31, 2008

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Gonzales.
2. There were no significant deficiencies reported during the audit of the financial statements.
3. There were no instances of noncompliance reported during the audit of the financial statements.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

None

CITY OF GONZALES, LOUISIANA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED MAY 31, 2008

FINDINGS – FINANCIAL STATEMENTS AUDIT

NONE

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

To the Honorable Mr. John A. Berthelot, Mayor
and the Members of the City Council
City of Gonzales, Louisiana

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Gonzales, Louisiana, as of the year ended May 31, 2008, which collectively comprise the city of Gonzales, Louisiana's basic financial statements and have issued our report dated October 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Gonzales, Louisiana's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Gonzales, Louisiana's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City of Gonzales, Louisiana's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Gonzales, Louisiana's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Gonzales, Louisiana's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Gonzales, Louisiana's financial statements that is more than inconsequential will not be prevented or detected by the City of Gonzales, Louisiana's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Gonzales's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended for the information of the City Council, management, and the Legislative Auditor. However, this report is a matter of public record and its distribution is not limited. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Peelethwaite & Mettwa

October 3, 2008